

VZCZCXRO4118  
PP RUEHROV  
DE RUEHAE #0467/01 1431411  
ZNY CCCCC ZZH  
P 231411Z MAY 07  
FM AMEMBASSY ASMARA  
TO RUEHC/SECSTATE WASHDC PRIORITY 8871  
INFO RUCNIAD/IGAD COLLECTIVE  
RUEHLO/AMEMBASSY LONDON 1359  
RUEHFR/AMEMBASSY PARIS 1537  
RUEKJCS/SECDEF WASHDC  
RUEAIIA/CIA WASHDC  
RUEKDIA/DIA WASHDC  
RHEHNSC/NSC WASHDC  
RUEPADJ/CJTF-HOA J2X CAMP LEMONIER DJ

C O N F I D E N T I A L SECTION 01 OF 03 ASMARA 000467

SIPDIS

SIPDIS

LONDON FOR AFRICA WATCHER  
PARIS FOR AFRICA WATCHER

E.O. 12958: DECL: 05/22/2017  
TAGS: [EMIN](#) [ETRD](#) [ECON](#) [ER](#)  
SUBJECT: GSE STYMIES MINERS

CLASSIFIED BY: AMB Scott H. DeLisi, for reasons 1.4 (b) and (d).

REFTEL: 06 ASMARA 250

11. (C) SUMMARY: While some in the mining industry continue to express optimism, the cracks are starting to show as the Government of Eritrea expresses interest in expanding its control over mining in Eritrea. In December 2006, the GSE established the National Mining Corporation as a means to hold the GSE percentage allowed under the mining laws. As many of the mining companies announce discovery of larger and more profitable deposits, Nevsun, the Canadian company closest to being ready for extraction, faces numerous, and costly, delays in obtaining the mining agreement. Combined with allegations of increased Chinese interest in mining in Eritrea, these events paint a picture of faults and pitfalls in the nascent Eritrean mining industry. END SUMMARY.

#### A NATIONAL MINING CORPORATION ESTABLISHED

-----

12. (C) In December 2006, the GSE released Proclamation 157/2006 announcing the establishment of the Eritrean National Mining Corporation. The GSE capitalized the Corporation with 450 million nakfa and divided ownership into 1000 shares, all held by the Ministry of Finance. The company has a five member board of directors appointed by President Isaias Afwerki. The only known corporate officer is the chairperson, Berhane Habtemariam, who will serve dually as the chairperson and continue his role as Eritrea's Auditor General. In typical Eritrean fashion, none of the other members of the Board of Directors or the General Manager have been named publicly. Reporting directly to the Ministry of Finance, the corporation is the entity through which the GSE is able to enter into joint investments with foreign companies, provide equipment to mining companies and essentially ?perform and implement whatever necessary and legitimate investments or undertakings are related to mining activities.?

#### EXTRACTIONS RAPIDLY BECOMING A DISTANT HOPE

-----

13. (C) In December 2006, Nevsun, a Canadian company with the largest known deposits in Eritrea, (known as the Bisha project) submitted its version of a mining agreement with the GSE. Simultaneously they provided the final results of

a socio-economic impact study, an environmental impact study and a feasibility study. Now, at a cost of nearly 10,000 USD per day and with a declining stock price, Nevsun continues to wait. While Nevsun Country Director Stan Rogers told Poloff that Nevsun is not concerned with this nearly five month delay, he also admitted to the high cost to Nevsun as each day passes. According to Mr. Rogers, the agreement is concluded but the GSE is waiting for the Eritrean National Mining Corporation to become an operating entity before they can move forward.

14. (C) Mr. Rogers told Poloff that with the delays, the initial timeline that called for extraction to begin in 2008 (reftel) seems at this time overly optimistic, with mid to late 2009 a more realistic date. Yet, the pressure on Nevsun is clear as Mr. Rogers noted that the mining plan might have to be adapted to increase the volume of ore extracted and raise the initial profits of the mine. (Note: This change would also increase the strain on local resources, such as water. End note.)

15. (C) What remains to be settled is the percent of the mine (and the profits) that will belong to the GSE. The mining law calls for the GSE to have access to 10% of the mine at no cost and an option for up to 20% additional shares that they can buy, for a total of 30% hold in the company. However, Mr. Rogers alluded to GSE plans to increase their shareholding to a total of 40%, not including taxes and royalties.

#### A PRECEDENT SET BY NEVSUN

-----  
ASMARA 00000467 002 OF 003

16. (C) Other exploration companies, such as Sanu Resources, are looking to Nevsun's challenges and potential agreement with great interest. While Mr. Rogers denies that the Nevsun agreement can set a precedent because Nevsun's Bisha site is unique, others in the industry disagree. Unlike Nevsun, an exploration company that plans to establish its own mining company, the other companies are focused purely on exploration with plans to sell the mining rights at some point prior to extraction. For these companies, such as Sanu Resources, Sub-Saharan Resources and Sunridge Gold Corporation, the mining agreement received by Nevsun has a direct impact on their ability to get the highest price for the mining rights and recoup their costs. Demetrius Pohl, the director of Sanu Resources, confirmed this to Poloff, noting that the gold and high grade ore of Bisha combined with the pressure to extract the minerals may lead the GSE and Nevsun to agree on higher royalties and taxes, which would hurt the mining agreements for the lower grade deposits.

#### AND IN COME THE CHINESE

-----  
17. (C) While Mr. Rogers denied that Nevsun was concerned about the Chinese presence in Eritrea, other exploration companies are starting to sweat. According to Mr. Pohl of Sanu, this spring the Ministry of Mines stopped issuing licenses to existing companies in Eritrea, claiming the need to diversify venture capital. Apparently a Chinese company applied for a license but was initially refused by the Ministry of Mines despite rumored pressure from President Isaias. Later, according to a local Eritrean businessman, a Chinese company was given the nod to pursue exploration and thus prevented an existing company from expanding its current license. However, with no transparency in the process, the situation still remains murky over who has a license. Moreover, Mr. Pohl shared with Poloff that they are considering a "nightmare scenario" of the exploration companies doing all the work and the GSE taking away the licenses and expelling the foreign companies, only to then turn all of the licenses

(and data) over to the Chinese. Of course, he explained, if this happened they would challenge the GSE in the World Court; but even he realizes that they would spend the rest of their days fighting the battle.

YET THE SEARCH GOES ON

-----  
¶18. (C) Despite concerns and increasingly raw nerves, mining exploration companies continue to seek new deposits each day. In December, Sunridge Corp. and Sub-Saharan resources confirmed the potential of the Emba Derho prospect. Amanuel Arafaine of Sunridge told Poloff that following extensive drilling, they learned the prospect was significantly more profitable than they initially anticipated. When combined with others in the area, called collectively the "Asmara Project" the potential rivals the significant profitability of Nevsun, as infrastructure problems are minimal given the prospect's proximity to the capital city. Demetrius Pohl also shared with Poloff that Sanu was on the verge of announcing another significant copper and zinc discovery that will match Bisha in size. Sanu appears extremely excited about the new site, because although the quality may not be as high a grade as Bisha the geology lends to an easier, and less expensive, extraction process.

COMMENT

-----  
¶19. (C) The GSE appears to still be hoping that mining will be the salvation of the economy; however the delays in moving forward may be an indication that the GSE is changing its course. The fear of the GSE taking over and possibly handing the process to the Chinese is real, and may become a reality despite Chinese dismissals. The GSE desperately needs the hard currency the mining will bring in. However, it does not have the hard currency at the moment to buy in to the mining company, thus the Chinese and their ever deep pockets may be the knight in shining armor the GSE seeks. End Comment.

ASMARA 00000467 003 OF 003

DeLisi